

formula for the net cost of a bare pole, which is used in computing the rate is the following:⁴

$$\frac{\text{Gross pole Investment} - \frac{\text{Depreciation Reserve (poles)}}{\text{Number of Poles}} - \text{Acc. Def. Inc. Tax}}{.05 \text{ Net Pole Investment}}$$

The reason for the negative net cost of a bare pole in SWBT's calculations was that, as a result of the escalating cost of removal of poles, the depreciation reserve includes a large net salvage component, causing the depreciation reserve to exceed the gross pole investment. The Commission's depreciation rulings recognize the effect of the escalating cost of removal on depreciation rates,⁵ but the pole attachment Report and Order did not anticipate the distorting effect of the cost of removal on pole attachment rates. As of year-end 1993, an average of less than an estimated 32% of SWBT's existing pole investment has been recovered, and thus, the net cost of a bare pole should not be negative, as resulted in the case of Oklahoma. The problem with application of the formula under these circumstances is that the depreciation reserve includes the recovery for future net salvage but the future net salvage value is not included in the gross pole investment.⁶ As a result, SWBT's net cost of bare poles is

⁴ Report and Order, Appendix B.

⁵ The Prescription of Revised Percentages of Depreciation Pursuant to the Communications Act of 1934, 8 FCC Rcd 816 (1993) (showing future net salvage between -79% and -138%).

⁶ The depreciation reserve component for net salvage is large because the cost of removal of the poles exceeds their salvage value as illustrated by the example set forth in Attachment A. In this illustration, assume the initial book cost of a pole is \$30
(continued.)

undervalued in all states and is turning negative long before SWBT has recovered its investment. An escalating cost of removal of poles should not cause the pole attachment rate to decrease, as it has in SWBT's circumstances, because the depreciation rate includes the recovery of the increased cost of removal. Instead, SWBT's calculations included negative figures not only for the net cost of a bare pole but also for other components of the Commission's formula, including depreciation expense, maintenance expense, and overall carrying charges.⁷

In order to solve this problem with the formula consistent with the requirements of the Pole Attachment Act,⁸ SWBT requests that the Commission clarify its formula for computation of the net cost of a bare pole by removing net salvage from the depreciation reserve component. Similarly, the calculation of the Net Pole Investment needs to be clarified to exclude the net

⁶(...continued)

the cost of removal is \$444, salvage value is \$30, and useful life is 10 years. The depreciation reserve would be \$71.40 per year $([300 + 444] - 30)/10$. After only five years, the initial book cost minus the depreciation reserve would be a negative figure of \$57, even though only half of the initial book cost had been recovered.

⁷ The rate resulting from these negative figures is positive only because the Commission formula requires the net cost of a bare pole to be multiplied by the carrying charges and the percentage of pole space used by the cable operator and two of these three components are negative figures (e.g., $(-\$1.69) * (-716.11\%) * (0.074) = \0.90).

⁸ The Commission characterized its pole attachment framework as being intended to establish a "rate approaching the statutory maximum" based on costs "approximating fully allocated costs Report and Order ¶¶ 6-9.

salvage component of the depreciation reserve in order to eliminate the negative carrying charges.

Neither the Report and Order nor any of the Commission orders adopting the pole attachment rules, Sections 1.1401 through 1.1415, addressed the definition of depreciation reserve or gross pole investment, except by the reference in Appendix B of the Report and Order to the Commission Form M account numbers corresponding to these two components of the formula. The formula should be clarified to recognize the fact that as long as there is unrecovered investment, the cost of a bare pole should be positive. Otherwise, the formula results in a rate which could not logically be considered just and reasonable under the Pole Attachment Act. In the case of the 1994 Oklahoma rates, a negative net cost of a bare pole of \$1.69 is illogical and certainly could not be considered reasonable, especially in view of the fact that less than half of the existing investment of the poles has been recovered. The literal application of some components of the formula under circumstances such as this apparently results in payments or credits to the cable system for attaching to SWBT's poles.⁹

SWBT respectfully requests that the Commission clarify its pole attachment formula consistent with this Petition in order to avoid the distorting effect of the cost of removal on the

⁹ Of course, the Pole Attachment Act would not permit such an absurd result, see 47 U.S.C. §224(d)(1), nor should it permit a rate as low as one based upon a negative net cost of a bare r

computation of pole attachment rates. In the alternative, in the event the Commission believes that general clarification of the formula is not appropriate or desirable, SWBT respectfully requests that, in view of the unreasonable rate resulting from the formula as applied to SWBT's circumstances, the Commission grant SWBT a continuing waiver to calculate all of its pole attachment rates in accordance with the formula as clarified by SWBT herein.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

By Jonathan W. Royston
Robert M. Lynch
Richard C. Hartgrove
Jonathan W. Royston

Attorneys for
Southwestern Bell Telephone Company

One Bell Center, Suite 3520
St. Louis, Missouri 63101
(314) 235-2507

August 26, 1994

Attachment A

Book Cost	Cost of Removal	Salvage Value	Amt. to Depr.	Life	Yearly Depr.	Cum. Depr.	Recov. of Orig. Cost	Recov. of FNS	Life
300	444	30	714	10	\$71.40	\$71.40	\$30.00	\$41.40	1
					\$71.40	\$142.80	\$30.00	\$41.40	2
					\$71.40	\$214.20	\$30.00	\$41.40	3
					\$71.40	\$285.60	\$30.00	\$41.40	4
					\$71.40	\$357.00	\$30.00	\$41.40	5
					\$71.40	\$428.40	\$30.00	\$41.40	6
					\$71.40	\$499.80	\$30.00	\$41.40	7
					\$71.40	\$571.20	\$30.00	\$41.40	8
					\$71.40	\$642.60	\$30.00	\$41.40	9
					\$71.40	\$714.00	\$30.00	\$41.40	10
							\$300.00	\$414.00	

During year 5 the depreciation reserve account will have accumulated more than the original investment amount; however, all of the original investment will not be recovered until the end of year 10 (i.e. \$357.00 reserve compared to \$300.00 book cost).

CERTIFICATE OF SERVICE

I, Katie M. Turner, hereby certify that the foregoing, (PFC) "Petition for Clarification of Southwestern Bell Telephone Company" has been filed this 26th day of August, 1994.

A handwritten signature in cursive script that reads "Katie M. Turner". The signature is written in dark ink and is positioned above a horizontal line.

Katie M. Turner

August 26, 1994

INTERNATIONAL TRANSCRIPTION SERVICES
1919 M STREET
ROOM 246
WASHINGTON DC 20554

A RICHARD METZGER
CHIEF COMMON CARRIER BUREAU RM 500
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET NW
WASHINGTON DC 20554

KEN MORAN
CHIEF ACCOUNTING AND AUDITS DIVISION
2000 L STREET NW
SUITE 812
WASHINGTON DC 20036